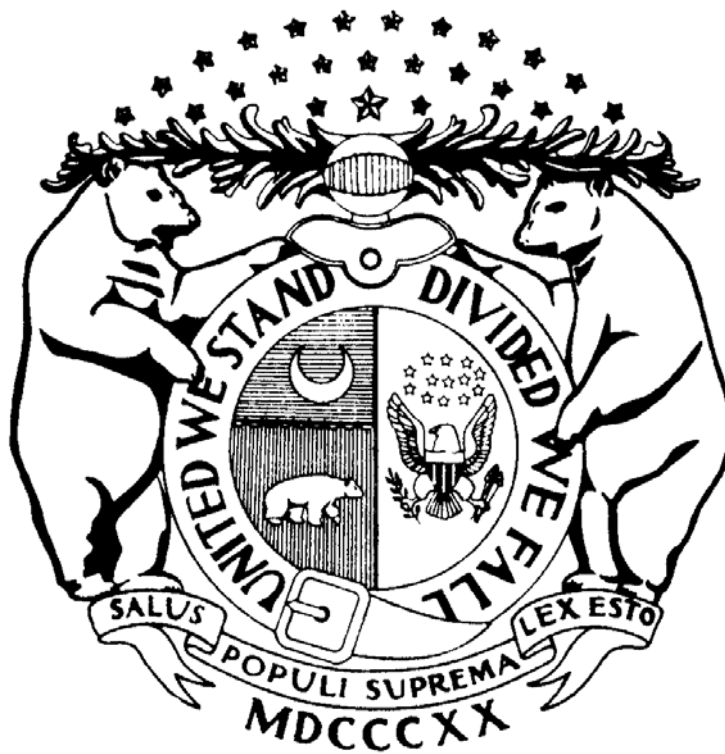


REPORT OF
ASSOCIATION FINANCIAL EXAMINATION

VISION SERVICE PLAN INSURANCE COMPANY

AS OF
DECEMBER 31, 2003



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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Rancho Cordova, California
March 2, 2005

Honorable Kevin M. McCarty, Commissioner
Office of Insurance Regulation
Florida Department of Insurance
Chairman, (E) Financial Condition Committee

Honorable Jorge Gomez, Commissioner
Wisconsin Department of Insurance
Midwestern Zone Secretary

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

Vision Service Plan Insurance Company

hereinafter referred to as such, as the "Company", or as "VSPIC-MO". Its administrative office is located at 3333 Quality Drive, Rancho Cordova, California 95670, telephone number (916) 851-5000. This examination began on November 9, 2004, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Vision Service Plan Insurance Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covers the period from January 1, 2000, through December 31, 2003, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance (MDI) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditors, PricewaterhouseCoopers LLP, of Sacramento, California, for their audit period covering January 1, 2003, through December 31, 2003. This information included, but was not limited to, narrative descriptions and testing of internal controls, investment account confirmations and account analysis.

Comments-Previous Examination

Listed below are the comments, recommendations, and notes of the previous examination report, dated as of December 31, 1999, and the subsequent response or action taken by the Company.

History-Corporate Records

Comment: The minutes of the Company's Board of Directors' meetings failed to reflect approval of an Assumption Reinsurance Agreement with an affiliate, review and

acceptance of the December 31, 1995, MDI Examination Report or approval of certain other transactions. It was recommended that, in the future, the Board ensure the minutes reflect the approval of all significant transactions and corporate events.

Company's Response: A staff attorney was specifically directed to ensure that, in the future, Board minutes reflect approval of all significant transactions and corporate events.

Current Findings: The minutes of the Board of Directors' meetings for the current examination period did not reflect the appointment of the independent actuary on an annual basis, the review and acceptance of the December 31, 1999 MDI examination report or the merger which occurred between the Company and an affiliate. See the Corporate Records section of this report for recommendations.

Assumed Reinsurance

Comment: The Company signed an Assumption Reinsurance Agreement with an affiliate, New Mexico – Vision Service Plan without obtaining prior approval from the MDI as required by RSMo 375.1287.2 (Notice of transfer) and RSMo 382.195 (Transactions within a holding company system). The Company was directed to institute procedures to ensure future transactions or agreements requiring prior approval from, or notice to, the MDI were filed in a timely manner.

Company's Response: A staff attorney was specifically directed to ensure any transactions or agreements requiring prior approval from, or notice to, the MDI were filed in a timely manner.

Current Findings: The Company did not file the merger with an affiliate, VSP Central Region, which occurred in October 2000 with the MDI for prior approval as required by RSMo 382.195. See the Intercompany Transactions section of this report for recommendations.

HISTORY

General

Vision Service Plan Insurance Company was incorporated and commenced business on June 1, 1987, as a joint stock casualty insurance company, under Chapter 379 RSMo (Insurance other than life). The Company was originally wholly-owned by California Vision Service (now known as Vision Service Plan). On April 1, 1993, Vision

Service Plan (VSP) transferred all its shares of VSPIC-MO to a wholly-owned subsidiary, Altair Holding Company.

Capital Stock

VSPIC-MO is one hundred percent owned by Altair Holding Company. As of December 31, 2003, the Company had authority to issue 10,000 shares of \$150 par value common stock. All 10,000 shares were issued and outstanding for a balance of \$1.5 million in the Company's capital stock account at December 31, 2003.

Dividends

No dividends were declared or paid during the examination period.

Management and Control

The management of the Company is vested in a Board of Directors that are appointed by the sole shareholder. The Company's Articles of Incorporation specify that the number of directors shall be no less than nine, but no more than fifteen. The directors elected and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Business Affiliation</u>
Cheryl Johnson Granite Bay, California	Vice President-Health Care Services Vision Service Plan (California)
Gary N. Brooks Loomis, California	Senior Vice President-Operations Vision Service Plan (California)
Patricia Cochran Elk Grove, California	Vice President-Finance, Chief Financial Officer Vision Service Plan (California)
Tana DeLuca* Grover, Missouri	Regional Field Trainer for Sales Administration Vision Service Plan (California)

Walter E. Grubbs Fair Oaks, California	Vice President-Human Resources Vision Service Plan (California)
R. David Jones, O.D.* Sebastopol, California	Optometrist, Self-Employed Board Vice Chair, Vision Service Plan (California)
L. Donald Price Fair Oaks, California	Vice President-Provider Relations Vision Service Plan (California)
Richard W. Steere Sacramento, California	Vice President-Sales Vision Service Plan (California)
Roger J. Valine Sacramento, California	President and Chief Executive Officer Vision Service Plan (California)

* Effective October 27, 2004, Ms. Deluca was replaced by Susan Young and Mr. Jones was replaced by Mary Ann Cavanagh.

Pursuant to its Bylaws, the officers of the Company shall consist of a President, one or more Vice Presidents, a Secretary, an Assistant Secretary and a Treasurer.

Officers elected and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Position</u>
Roger J. Valine	President
Gary N. Brooks	Vice President/Secretary
Patricia Cochran	Treasurer/ Assistant Secretary

The Board of Directors of VSPIC-MO does not have any committees per se. The VSPIC-MO Board of Directors utilizes the committees of the ultimate parent, VSP. As of December 31, 2003, VSP had the following committees:

Business Committee	Health Services Committee
Finance Committee	Provider Relations Committee
Governance Committee	Quality Care Committee

Conflict of Interest

The Company has procedures that require all officers and directors to complete a conflict of interest statement each year. Signed conflict of interest statements were reviewed for the examination period, and no significant conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws of the Company. No amendments were made to either the Articles of Incorporation or Bylaws during the period under examination.

The minutes of the Company's Board of Directors' meetings and the Sole Shareholder's meetings were reviewed for the period under examination. The minutes failed to reflect the annual appointment by the Board of Directors of the Company's independent actuary. The NAIC Annual Statement Instructions for Property and Casualty Companies require the actuary to be appointed by the Board of Directors or its equivalent, or by Committee of the Board, by December 31 of the calendar year for which the opinion is rendered. In addition, the minutes failed to reflect the review and acceptance of the December 31, 1999 MDI Examination Report or approval of a merger which occurred between VSPIC-MO and an affiliate. The Company should ensure that the Board of Directors approve the independent actuary on an annual basis and discuss and approve significant transactions and corporate events. These discussions and approvals should be reflected in the meeting minutes.

Acquisitions, Mergers and Major Corporate Events

Effective October 1, 2000, VSPIC Central Region, an affiliated company, was merged into VSPIC-MO. The merger is discussed in more detail in the Intercompany Transactions section of this report.

Surplus Debentures

There were no surplus debentures issued or outstanding for the period under examination.

AFFILIATED COMPANIES**Holding Company, Subsidiaries and Affiliates**

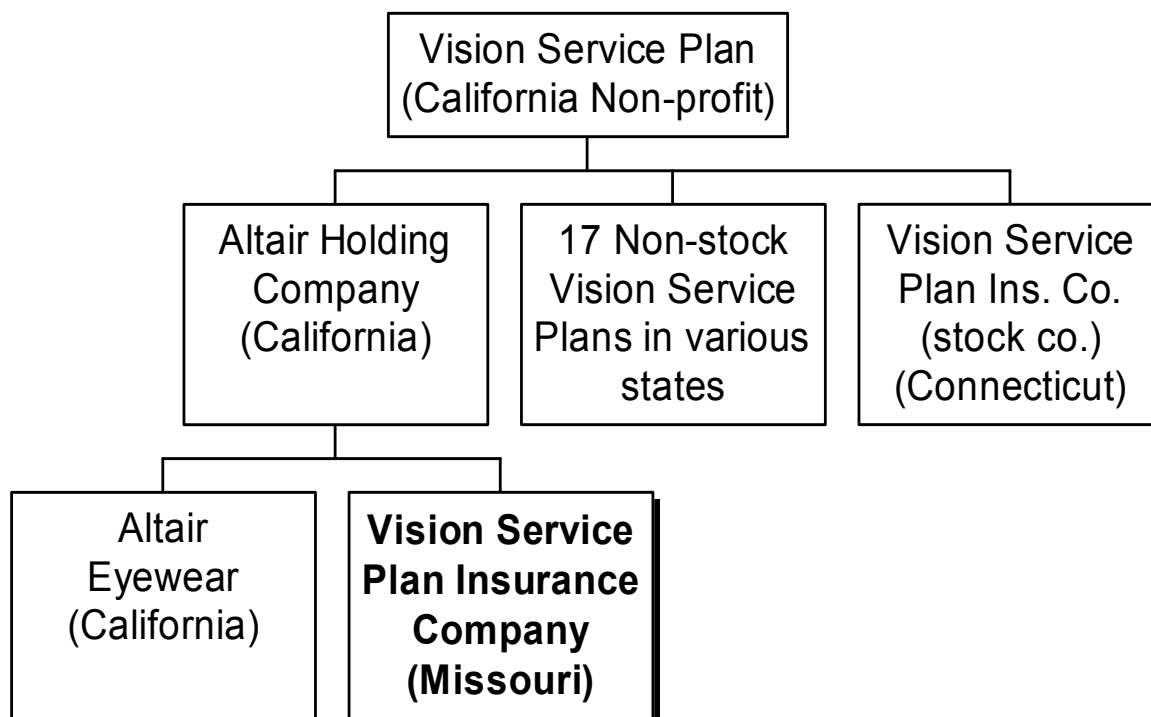
VSPIC-MO is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). Altair Holding Company (AHC), a holding company incorporated in California, owns 100% of the outstanding capital stock of VSPIC-MO. AHC also owns 100% of the outstanding stock of Altair Eyewear, a California private-label frame company selling exclusively to VSP doctors. AHC is, in turn, wholly owned by Vision Service Plan (VSP), a non-profit California corporation and the ultimate parent of the holding company system. As a non-profit corporation, VSP has members rather than stockholders. The members of VSP are the participating California member optometrists.

VSP controls eighteen other vision service plans in various states, all of which are non-stock, except for Vision Service Plan Insurance Company of Connecticut, a stock company. The consolidated group operates vision care plans throughout the United States under the federally registered service marks "Vision Service Plan" or "VSP".

Insurance Holding Company System Registration Statements were filed by VSPIC-MO with the State of Missouri for each of the years in the examination period with each statement maintaining that VSP is the ultimate controlling entity.

Organizational Chart

The following organizational chart depicts the holding company system of VSP as of December 31, 2003:



Intercompany Transactions

VSPIC-MO has entered into the following intercompany agreements:

1. Type: Administration and Marketing Agreement
 Parties: Vision Service Plan and VSPIC-MO
 Effective: February 1, 1998 (amended June 22, 1998)
 Terms: VSP provides all administrative and marketing services to VSPIC-MO. In return for these services, VSPIC-MO reimburses VSP on a monthly basis for the services provided. The amount paid is computed by taking VSP's expenses (less certain VSP specific items), dividing that amount by the total number of claims paid by the corporation, and multiplying the result by the number of claims specific to VSPIC-MO.

2. Type: Tax Allocation Agreement
- Parties: Altair Holding Company (AHC), Altair Eyewear, and VSPIC-MO
- Effective: January 1, 1995
- Terms: The agreement provides that the companies will file consolidated federal and state income tax returns. Each company's tax liability is the percentage of the total tax liability that its taxable income bears to the total taxable income. However, the agreement stipulates that the tax liability for the individual companies will not be more than if the company had filed a separate return. All settlements under the agreement are required to be made within ten days of notice from AHC of payment/receipt of funds to/from the taxing authority.

In addition, to the above transactions, effective October 1, 2000, an affiliated company, VSP Central Region (VSP-CR), was merged into VSPIC-MO. At the time of the merger, VSP-CR's sole business consisted of administrative services contracts. Since these contracts were for business self-insured by subscribers, no insurance risk business was transferred to VSPIC-MO as part of the merger. However, as a result of the merger, according to the Company, VSPIC-MO acquired \$1,653,936 in assets consisting mainly of receivables due under the administrative services contracts and assumed known liabilities of \$1,653,936 consisting of a payable to the ultimate parent, VSP. The Company should have filed this transaction with the Missouri Department of Insurance pursuant to Section 382.195 (5) RSMo. (Prohibited transactions, exceptions). The Company is directed to institute procedures to ensure any future transactions or agreements requiring prior approval from, or notice to, the MDI are filed.

Following is a table of amounts incurred under the intercompany agreements for the years in the examination period.

	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Admin. and Marketing Agreement				
Paid to VSP	\$10,449,007	\$10,206,351	\$9,524,744	\$9,737,257
Tax Allocation Agreement				
Paid to AHC	2,855,466	3,245,401	-0-	-0-
Total	<u>\$13,304,473</u>	<u>\$13,451,752</u>	<u>\$9,524,744</u>	<u>\$9,737,257</u>

FIDELITY BOND AND OTHER INSURANCE

Vision Service Plan Insurance Company is a named insured, along with other VSP subsidiaries, on a Financial Institution Bond purchased by the ultimate parent, Vision Service Plan. The Bond has an aggregate liability of \$4 million, with a single loss liability limit of \$2 million and a single loss deductible of \$75,000 for forgery, alteration, and computer systems. The fidelity coverage provided by this policy complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

VSPIC-MO is also a named insured on the following policies purchased by VSP: Commercial General Liability, Umbrella and Excess Liability policies, Managed Care Professional Liability (Errors and Omissions) and Directors and Officers Liability.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Vision Service Plan Insurance Company has no direct employees. The employees who perform the Company's operations are employed by, and receive benefits from, the ultimate parent, VSP pursuant to the Administration and Marketing Agreement described in the Intercompany Transactions section of this report.

VSP offers a variety of benefits to employees which include, but are not limited to, paid vacations and sick leave, medical, dental and vision coverage, group life insurance, accidental death and dismemberment insurance, short-term and long-term

disability insurance, and a defined benefit contribution 401(k) retirement plan. VSPIC-MO has no additional liability for any of the benefits listed above.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 379.098 RSMo (Securities deposits).

The funds on deposit as of December 31, 2003 were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$2,400,000	\$2,504,696	\$2,481,000

Deposits with Other States

VSPIC-MO also has funds on deposit with the states of Georgia and New Mexico in which it is licensed. Those funds on deposit as of December 31, 2003, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Stmnt Value</u>
Georgia	Money Market	\$25,000	\$25,000	\$25,000
New Mexico	Certificate of Deposit	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
Totals		<u>\$125,000</u>	<u>\$125,000</u>	<u>\$125,000</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

VSPIC-MO is licensed with the Missouri Department of Insurance under Chapter 379 RSMo (Insurance other than life) to write accident and health insurance. As of

December 31, 2003, the Company was also licensed in five other states: Florida, Georgia, Idaho, Maryland, and New Mexico. The amount of premium written in each state during 2003 as a percentage of total written premiums was as follows: Missouri, 44%; New Mexico, 24%; Georgia, 15%; and Florida, 17%. No premiums were written in either Idaho or Maryland.

The Company specializes within the accident and health line, writing only group vision service insurance to subscriber groups on both a risk and self-funded basis. Subscriber groups which purchase coverage on a risk basis pay an agreed upon monthly premium based on total number of eligible members. Subscriber groups which elect self-funded programs reimburse the Company for benefits paid and pay an administrative fee. For 2003, premiums from risk basis plans provided 45% of total revenues generated with the remaining 55% of total revenues being generated from the administrative fees on self funded plans.

Pursuant to the Administration and Marketing Agreement, described in the Intercompany Transactions section of this report, all sales and marketing services are provided to the Company by its ultimate parent, VSP. VSP utilizes both in-house agents independent brokers to market its products.

Policy Forms & Underwriting
Advertising & Sales Material
Treatment of Policyholders

The Missouri Department of Insurance has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. The Company has not been examined for market conduct activity to date. A cursory review

was made of several market conduct related areas of the Company during the examination, and no problems were noted.

REINSURANCE

General

The Company does not participate in reinsurance in its normal course of business. During the period under examination, the Company did not assume or cede any reinsurance.

Assumed

The Company does not assume reinsurance.

Ceded

The Company does not cede reinsurance.

ACCOUNTS AND RECORDS

Independent Auditor

The Company's financial statements were audited by the CPA firm, PricewaterhouseCoopers, LLP, of Sacramento, California for all years in the examination period.

Independent Actuary

Loss reserves of the Company were reviewed and certified by Frederick W. Kilbourne, FCAS, MAAA, of The Kilbourne Company of San Diego, California, for all years in the examination period.

Annual Statement Blank

Although the Company's sole line of business is group vision health coverage, the Company files the Property and Casualty Annual Statement and Quarterly Statement blanks. The Company is not required to file the Property and Casualty blanks by Missouri statutes or regulations. In addition, the Company meets the requirements of the NAIC Annual Statement Instructions for filing the Health blank. It appears that filing the Health blank would better facilitate the disclosure of health oriented information regarding the Company's business. Therefore, it is recommended that the Company consider using the Health blank for future filing periods.

Custodial Agreement

During our review of the Company's cash and investment accounts, it was noted that the Company's custodial agreement with Bank of America did not contain all of the safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook. The Company should amend or restate the custodial agreement so that it contains all of the NAIC specified safeguard provisions. Until such time the agreement is brought into compliance with NAIC guidelines, it should be disclosed in General Interrogatory 23.02 of the Annual Statement for custodial agreements not in compliance with NAIC guidelines.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2003. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding

such are made in the “Notes to the Financial Statements”. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements”. These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

Analysis of Assets

	LEDGER ASSETS	ASSETS NOT ADMITTED	NET ADMITTED ASSETS
Bonds	\$13,592,676		\$13,592,676
Common stocks	1,476,759		1,476,759
Cash and short-term investments	19,876,904		19,876,904
Receivable for Securities	1,902		1,902
Investment income due and accrued	183,351		183,351
Premiums & agents' balances in course of collection	1,928,107	\$20,187	1,907,920
Amounts receivable related to unisured plans	3,748,523	11,431	3,737,092
Current federal and foreign income tax recoverable	1,755,189		1,755,189
Net deferred tax asset	708,948		708,948
Total assets	<u><u>\$43,272,359</u></u>	<u><u>\$31,618</u></u>	<u><u>\$43,240,741</u></u>

Liabilities, Surplus and Other Funds

Losses	\$2,903,535
Loss adjustment expenses	180,079
Other expenses	177,623
Taxes, licenses and fees (excluding federal income taxes)	265,006
Federal and foreign income taxes (excluding deferred taxes)	159,232
Unearned premium	49,217
Payable to parent, subsidiaries, and affiliates	1,420,807
Payable for securities	5,476
Liabilities for amounts held under uninsured accident & health plans	420,714
Aggregate write-ins for liabilities:	
Escheatable checks	102,258
Total liabilities	<u>5,683,947</u>
Common capital stock	1,500,000
Unassigned funds (surplus)	<u>36,056,794</u>
Surplus as regards policyholders	<u>37,556,794</u>
Total liabilities and surplus	<u><u>\$43,240,741</u></u>

Statement of Income

UNDERWRITING INCOME

Premiums earned	\$47,830,812
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Deductions:

Losses incurred	38,949,144
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Loss expenses incurred	579,281
------------------------	---------

Other underwriting expenses incurred	745,520
--------------------------------------	---------

Total underwriting deductions	<div style="border-top: 1px solid black; border-bottom: 3px double black;">40,273,945</div>
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Net underwriting gain or (loss)	7,556,867
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INVESTMENT INCOME

Net investment income earned	603,725
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Net realized capital gains or (losses)	<div style="border-bottom: 1px solid black;">(4,407)</div>
----------------------------------------	------------------------------------------------------------

Net investment gain or (loss)	599,318
--------------------------------------	----------------

OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off	(51,511)
-----------------------------------------------------------------	----------

Finance and service charges not included in premiums	-
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Aggregate write-ins for miscellaneous income	<div style="border-bottom: 1px solid black;">-</div>
----------------------------------------------	------------------------------------------------------

Total other income	(51,511)
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Net inc before dividends to policyholders & before fedl inc taxes	8,104,674
------------------------------------------------------------------------------	------------------

Dividends to policyholders	<div style="border-bottom: 1px solid black;">-</div>
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Net inc after dividends to policyholders but before fedl inc taxes	8,104,674
---------------------------------------------------------------------------	------------------

Federal and foreign income taxes incurred	<div style="border-bottom: 1px solid black;">1,087,891</div>
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Net income	\$ 7,016,783
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Capital and Surplus Account

Surplus as regards policyholders, December 31, 2002	\$ 30,123,386
Net income	7,016,783
Net unrealized capital gains or (losses)	386,511
Change in deferred income tax	(2,370)
Change in non-admitted assets	(13,782)
Aggregate write-ins for gains and losses in surplus:	
Reversal of GAAP allowance for doubtful accounts	46,266
Surplus as regards policyholders, December 31, 2003	<u>\$ 37,556,794</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

History-Corporate Records (Page 6)

The minutes of the Company's Board of Directors' meetings failed to reflect the annual appointment by the Board of Directors of the Company's independent actuary. In addition, the minutes failed to reflect the review and acceptance of the December 31, 1999 MDI Examination Report or approval of the merger which occurred between VSPIC-MO and VSP Central Region. The Company should ensure that the Board of Directors approve the independent actuary on an annual basis and discusses and approve significant transactions and corporate events. These discussions and approvals should be reflected in the meeting minutes.

Intercompany Transactions (page 9)

The Company failed to file the merger with VSP-Central Region with the Missouri Department of Insurance as required by Section 382.195 RSMo. (Prohibited transactions, exceptions). The Company is directed to institute procedures to ensure any future transactions or agreements requiring prior approval from, or notice to, the MDI are filed.

Annual Statement Blank (Page 14)

Although the Company's sole line of business is group vision health coverage, the Company files the Property and Casualty Annual Statement and Quarterly Statement blanks. It appears that filing the Health Quarterly and Annual Statement blanks would better facilitate the disclosure of health oriented information regarding the Company's business. Therefore, it is recommended that the Company consider filing the Health blank for future filing periods.

Custodial Agreement (Page 14)

The Company's custodial agreement with Bank of America did not contain all of the safeguard provisions specified in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook. The Company should amend or restate its custodial agreement so that it contains all of the NAIC specified safeguard provisions. Until such time the agreement is brought into compliance with NAIC guidelines, it should be disclosed in General Interrogatory 23.02 of the Annual Statement for custodial agreements not in compliance with NAIC guidelines.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Vision Service Plan Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Barbara Bartlett, AFE, and Andy Balas, CFE, examiners for the Missouri Department of Insurance, participated in this examination.

VERIFICATION

State of Missouri)
)
County of)

I, Mark Nance, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

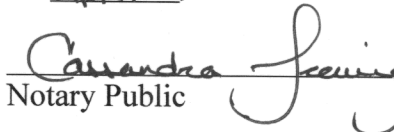


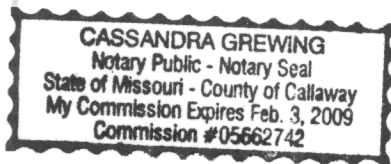
Mark Nance, CPA, CFE
Examiner-In-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this 15 day of April, 2005.

My commission expires:

February 3, 2009


Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



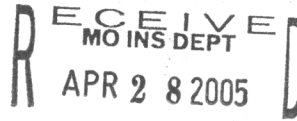
Frederick G. Heese, CPA, CFE
Audit Manager
Missouri Department of Insurance



April 18, 2005

PATRICIA COCHRAN
CHIEF FINANCIAL OFFICER

Kirk Schmidt, Chief Financial Examiner
Missouri Department of Insurance
P.O. Box 690
Jefferson City, MO 65102-0690



Dear Mr. Schmidt:

We have received the draft examination of Vision Service Plan Insurance Company for the period ending December 31, 2003. Please include our responses below in the report as a public document.

1. History – Corporate Records

The Company will comply with the directive to ensure that Board approval is obtained at least annually for the independent actuary's appointment and for other significant transactions and corporate events. Although outside the examination period, the Company respectfully notes that annual Board approval for the independent actuary's appointment was specifically obtained on November 1, 2004 (and reflected in the Company's minute book).

2. Intercompany Transactions

The Company will comply with the directive to ensure that it files future transactions requiring prior approval of, or notice to, the Department. Although the self-funded group vision administrative service plan contracts to which the since-dissolved VSP Central Region entity was formerly a party were, by definition, not the subject of a reinsurance agreement, the Company takes note of the directive and will comply with it. The Company would like to correct any inadvertent, incorrect reference that it may have previously made to "reinsurance" of self-funded contracts formerly held by the VSP Central Region entity. Because those contracts were self-funded, they were neither reinsurable nor, as a factual matter, reinsured.

3. Annual Statement Blank

In 2001, we changed all affiliate companies to the Health Blank, except the Missouri company, at the direction of the Department. We will begin using the Health Blank for the Missouri company effective with the quarter ended March 31, 2005, as you have now directed.

4. Custodial Agreement

The Department's recommended changes to the custodial agreement were submitted to Bank of America on February 5, 2005. Bank of America's legal department is in the process of amending the agreement to incorporate these changes.

Please contact me if you have questions regarding our responses to your examination comments and recommendations.

Cordially,


Patricia Cochran

PC:ald

3333 QUALITY DRIVE, RANCHO CORDOVA, CALIFORNIA 95670-7985

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